

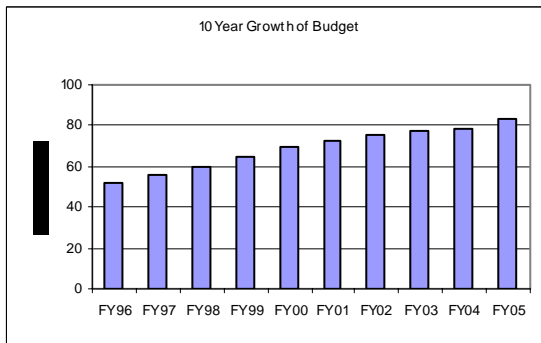
Executive Budget Summary

City of Leominster

Introduction

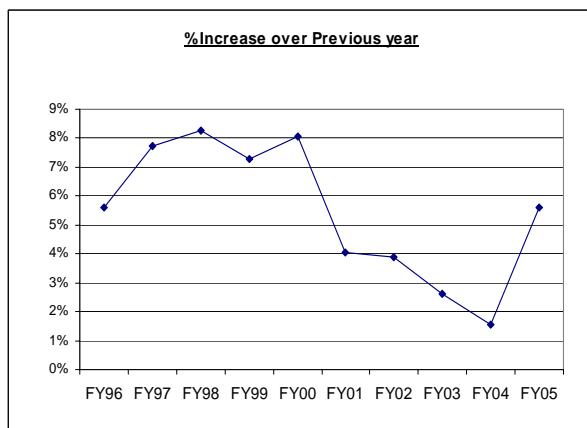
The Fiscal Year 2005 General Fund Budget total of \$83,056,154, represents a 5.59% increase over the Fiscal Year 2004 Budget total of \$78,662,192.

Budget Chart 1



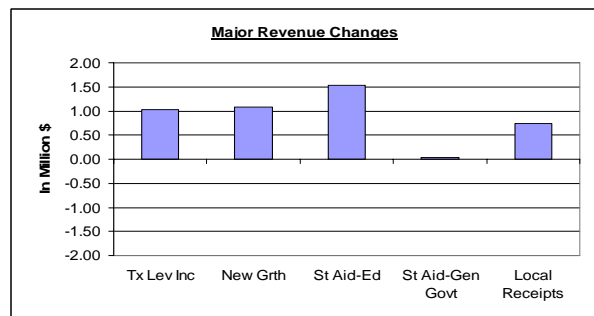
The 5.59% budget increase marks the first year that the General Fund Budget has increased from the previous year in five years.

Budget Chart 2



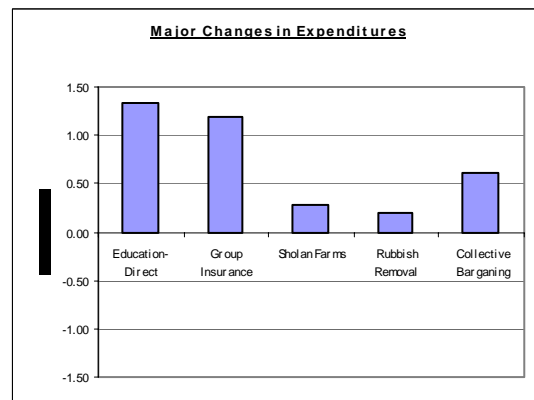
The major changes in revenue sources from FY04 to FY05 were Proposition 2 1/2 tax increases, Certified New Growth and State Aid-Education. State Aid-General Government and recurring Local Receipts estimates remained flat. Non-Recurring Local Receipts (one-time Lottery Aid, Comcast License Fee, and a FEMA Reimbursement all totaling \$698,253) all appropriated for one-time expenditures, increased the FY05 Budget amount total.

Budget Chart 3



The expenditure side of the FY05 Budget also saw many changes. The Group Insurance expense accounts continues to see upward cost pressures due to enrollment increases (School Department), projected increasing utilization trends in medical services and prescriptions, and cost increases with all medical related products and providers.

Budget Chart 4



Executive Budget

Summary continued

City of Leominster

The Net School Spending Requirement increased by \$1,805,524 over FY 2004. This is due to the \$1,329,319 increase in the Chapter 70 line item along with the \$476,205 local contribution required increase due to the municipal revenue growth factor calculation by the State for FY 2005.

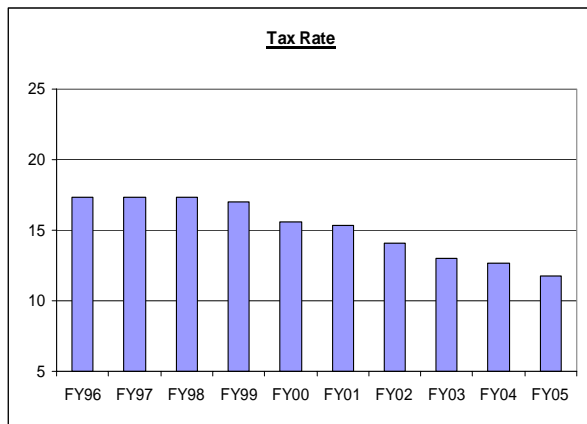
Permanent funding provisions have been made for modest cost of living adjustments. Settlements have been reached for FY 2004 - FY2006 periods with the Firefighters, DPW Laborers, and Non - Union Employers.

The cost of rubbish pick-up and disposal remains to be a major concern given that the City does not have a city disposal facility.

Tax Base Information

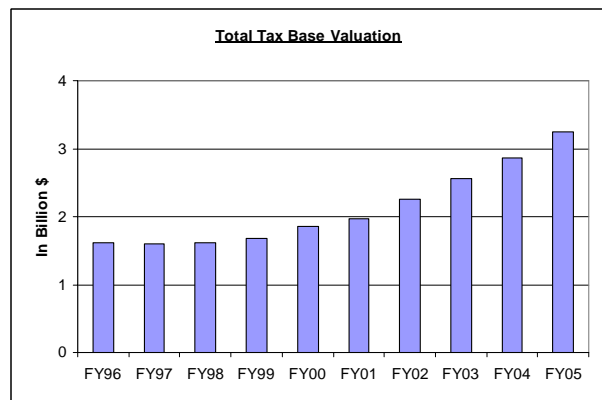
The Total Assessed Valuation of the City has risen at a pace equal to or greater than the Tax Levy during the past 10 years. This has led to stable or declining tax rate during this time period.

Budget Chart 5



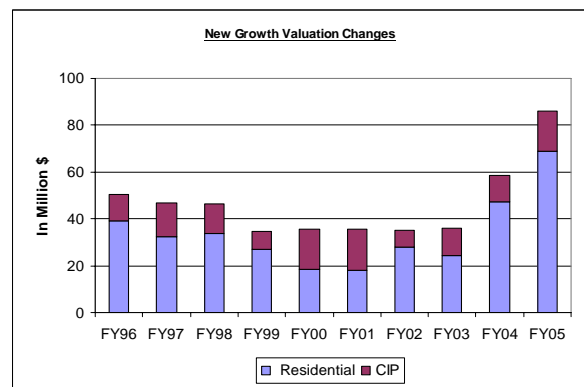
The Total Assessed Valuation for the City has reached \$3,255,748,300 for Fiscal Year 2005. This represents a 104% increase over the Fiscal Year 1995 Total Assessed Valuation of \$1,593,157,640.

Budget Chart 6



The \$1,662,590,660 increase in valuation during this 10 year period includes Certified New Growth valuations of \$477,839,807 as certified in these original years. Subsequent valuation increases to these (New Growth) properties due to interim and triennial revaluations raises the "New Growth Valuations" amount significantly.

Budget Chart 7



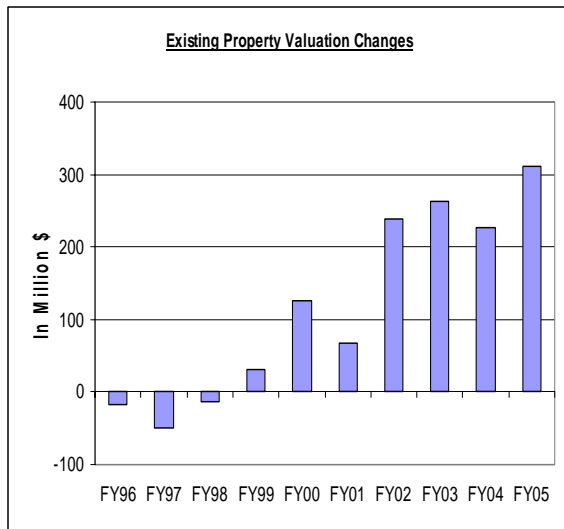
Executive Budget

Summary Continued

City of Leominster

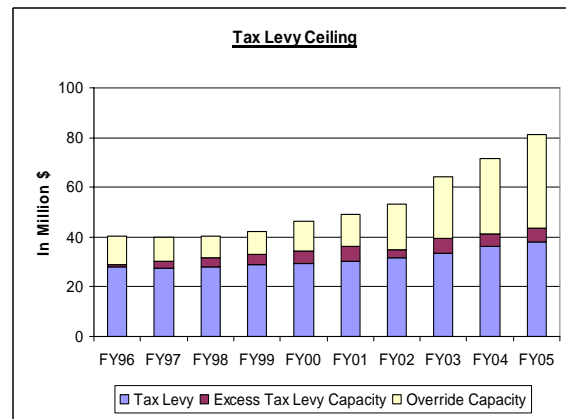
During four of the past ten years, the amount of Certified New Growth Valuations has been greater than existing property valuation changes.

Budget Chart 8



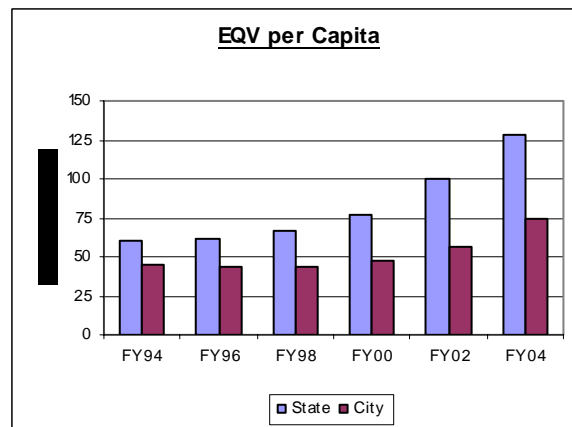
This overall Net Valuation net increase has served to raise the City of Leominster levy ceiling to \$81,393,708 in FY 2005. The levy ceiling is the maximum amount that the City of Leominster could raise through the tax levy in that particular fiscal year. This amount is equal to the so called, "Proposition 2 1/2 Limit". The formula to arrive at this levy ceiling amount is Total Assessed Valuation x 2.5%. This increase in valuation has resulted in the City having \$37,963,833 in current override capacity in FY 2005.

Budget Chart 9



Although the Equalized Valuation per Capita (EQV per Capita) has risen for the past few years, the City still trails the State-Wide EQV per Capita average by a significant margin through FY 2004. The figures for FY 2004 indicate that the Leominster EQV per Capita of \$74,198 equates to 57.9% of the State-Wide EQV per Capita average of \$128,116.

Budget Chart 10



Executive Budget

Summary Continued

City of Leominster

Revenues

The reliance on State Aid for funding for the budget has been decreasing in the past few years. The State Aid increase to the Chapter 70 line item to help bring the Leominster School System to the Foundation Budget level increased the percentage of the budget funded by State Aid to record levels. Relative percentages for Tax Levy, State Aid, and Local Receipts are listed below.

Budget table 1

	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05
Tax Levy %	54	50	47	44	42	41	42	43	46	46
State Aid %	40	43	45	48	50	51	50	48	47	46
Local Receipts%	6	7	8	8	8	8	8	9	7	8

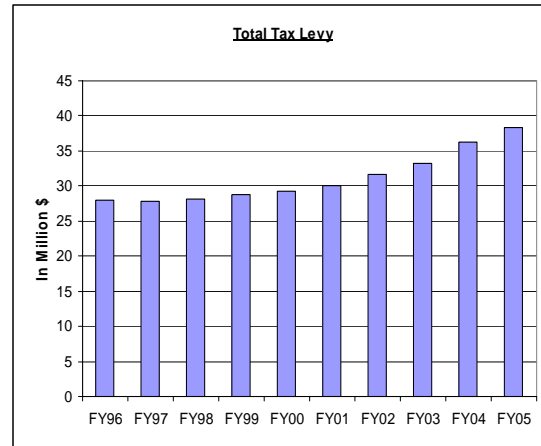
Revenue Source by %

Property Tax Levy

The Property Tax Levy is the City's second largest source of revenue. In FY 2005, the Property Tax Levy is \$38,287,600. This represents an 5.82% increase over the FY 2004 Property Tax Levy of \$36,180,223. A single Proposition 2 1/2 increase in FY05 yields additional tax revenue of \$1,032,764. The amount of new growth certified by the Department of Revenue was \$1,086,560.

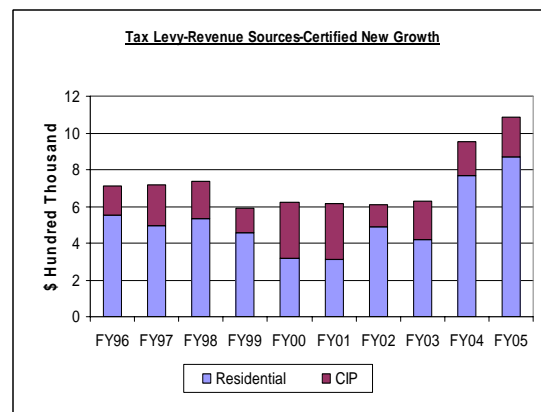
The sources of property tax growth are certified new growth and Proposition 2 1/2 tax levy increases. The FY05 tax levy increase of \$2,107,377 reflected a Proposition 2 1/2 increase of \$1,020,817 and Certified New Growth of \$1,086,560.

Budget Chart 11



Since FY1995, the property tax levy has grown \$10,630,383 from \$27,657,217 in FY 1995 to \$38,287,600 in FY 2005. New Growth has been certified by a total of \$7,240,087 during this time period. This is equal to more than 68% of the total levy increase during the ten year time period. Of the Certified New Growth, \$5,200,117 was residential certified new growth, while \$2,039,970 was commercial, industrial, and personal property new growth (CIP).

Budget Chart 12



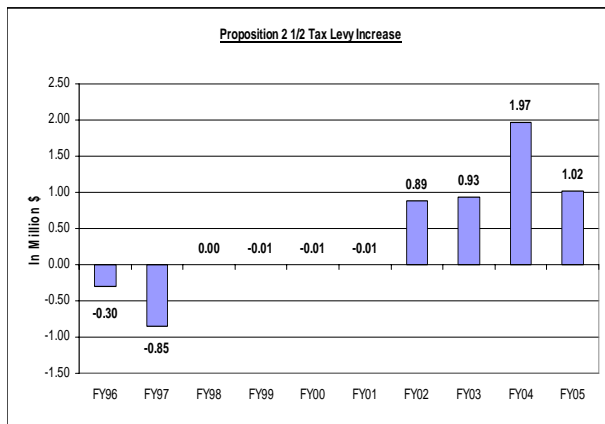
Executive Budget

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City of Leominster

The Proposition 2 1/2 total tax increase during this time period was \$3,390,296 (\$1,966,358 during FY 2004). This represents under 32% of the total tax levy increase during the past 10 years.

Budget Chart 13



The underutilization of the allowed full Proposition 2 1/2 tax increases over the past 10 years has placed the City in the position of having \$5,142,275 in Excess Levy Capacity in FY 2005. The cumulative total of tax capacity not levied since FY 1996 totaled \$45,283,174 (see Budget Chart 19). The actual annual Proposition 2 1/2 increase was, on average, less than 1% per year. The annual levy ceiling is allowed to increase 2.5% per year.

State Aid and Revenue Summary

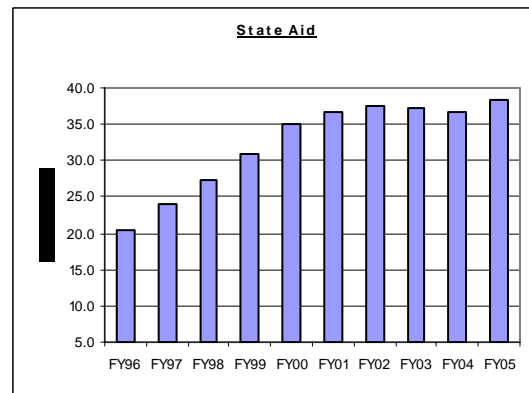
The City has withstood over \$4 million in cumulative reductions in State Aid over the past four fiscal year periods.

In FY 2002 the State reduced the Cherry Sheet Highway Fund line item by 75% (\$255,500). In FY 2003 the State totally eliminated Highway Fund line item award, for a loss of \$340,693 in each of the past three years. The Legislature also vested the Governor with the power to make unilateral reductions in State Aid during January. The so-called "9C" mid-year State Aid reductions amounted to a loss of \$527,065 for the City of Leominster Lottery Aid during FY 2003. In FY 2004 the City

"Cherry Sheet" (a listing of State Aid amounts estimated to be paid to the City, formerly issued on cherry colored paper) reflected further reductions in State Aid and reimbursement amounts. The School Transportation line item was completely eliminated (\$370,135). Lottery Aid was also reduced by \$843,796 from the original FY 2003 award of \$5,623,305. This has resulted in a cumulative Lottery Aid reduction of \$1,686,992 in the past two years.

It should be noted that the outlook is not good for a permanent increase in Lottery Aid in the short term future. The MMA is working diligently to eliminate the diversion of Lottery Funds to other State uses and to lift the cap placed upon it by the Legislature.

Budget Chart 14



State Aid - Education

The growth over the last 10 years in the Chapter 70 line item on the "Cherry Sheet" is mainly due to the commitment by the State to assist less wealthy communities in reaching Foundation Budget levels. The \$31,337,869 Chapter 70 award for FY 2005 reflects a \$1,329,319 increase over the FY 2004 award of \$30,008,550. School Choice Charter School expense reimbursement amounts also increased slightly.

Executive Budget

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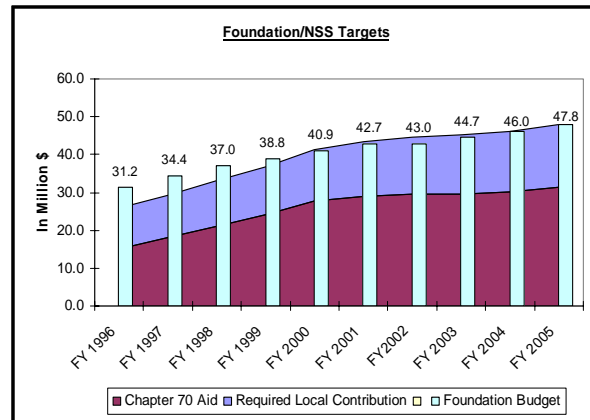
Budget Chart 15

Budget Table 2

Fiscal Year	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05
Chapter 70	15.0	18.1	21.0	24.1	27.8	28.9	29.5	29.5	30.0	31.3
School Transp	.33	.41	.41	.44	.41	.40	.39	.37	0	0
School Constr	1.51	1.51	1.51	1.51	1.51	1.51	1.51	1.51	1.50	1.51
Charter School	-	-	-	-	-	-	-	-	-	.27
Total Education Aid	16.8	20.1	23.0	26.0	29.8	30.9	31.4	31.4	31.6	33.1

In Million \$

In Addition to Ch. 70 Awards, the State requires the City to increase their local contribution in accordance with a Municipal Revenue Growth Factor (MGRF) formula. This MGRF formula results in a significant percentage of local revenue growth being earmarked for School related expenditure purposes. The growth in the amount of Chapter 70 Aid and the required local contribution to meet Net School Spending (NSS) can be seen in the following chart.



The City also has been adversely affected by the State's decision to delay making new payments on approved school building construction projects due to budget constraints. The State payment for the new Sky View Middle School is affected by this strategic decision. The City has not adopted this tactic. The City issued permanent bonds for the project equal to 31% of the cost of the project in November 2002. Favorable interest rates and the completion of the project combined forces to provide the environment to take the responsible path and begin payments on the project. The City has made \$433,000 in appropriations from the FY 2005 Certified Free Cash amount to pay for temporary loans still outstanding on the project. The State has passed a new funding mechanism that will pay the full state share upon audited approval of the project. The State has Leominster on the funding list for FY 2005 as of December 2004 for a preliminary payment since the project is complete. The auditing time frame remains unknown at this point, however. How much the City will receive this fiscal year and how much the City will receive upon completion of the audit is unclear at this point. Continued temporary borrowing costs are likely for the short-term future for the project.

Executive Budget

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State Aid-General Government

The State Aid the City receives from this section of the "Cherry Sheet" has seen a net increase of \$27,269 over the FY 2004 amount.

The City did receive a one-time distribution of Lottery Aid (\$635,173 during FY 2005. The proceeds were used for one-time expenditure purposes. These uses of funds included payoff of the Sholan Farms land purchase,

Budget Table 3

Gen Government	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY 03	FY04	FY05
Lottery	3,039,220	3,341,374	3,774,772	4,176,359	4,741,974	5,226,377	5,623,305	5,623,305	4,779,809	4,779,809
Additional Assistance	14,714	14,714	14,714	14,714	14,714	14,714	14,714	13,756	11,693	11,693
Highway Fund	340,693	340,693	340,693	340,693	340,693	340,693	85,173	0	0	0
Police Incentive	33,272	33,355	44,098	40,679	36,621	39,314	40,168	93,179	135,209	154,288
Veteran's Benefits	37,257	34,182	26,182	40,325	42,281	32,815	21,759	51,618	32,212	27,428
Exemptions Elderly	25,162	24,986	50,497	48,632	50,198	49,771	49,415	52,217	53,178	51,049
Abatements	63,460	62,598	63,375	63,408	63,376	63,354	61,565	58,685	62,372	63,354
State Owned Land	24,248	26,858	33,887	40,369	50,147	60,486	47,010	31,232	25,003	39,124
Total State Aid Gen Government	3,578,026	3,878,760	4,318,168	4,765,179	5,340,004	5,827,524	5,943,109	5,923,992	5,099,476	5,126,745

The Lottery Aid decrease of \$843,496 issued in FY04 remained in effect for FY05. While the Police Career Incentive (Quinn Bill) reimbursement increased for this past year, it should be noted that the reacceptance of this statute by the City costs twice the amount of the award increase. The statute funds only half of the cost of this benefit while they are on active duty. The full pension cost related to this benefit is owned solely by the City of Leominster. The State does not reimburse for increased pension cost related to this benefit.

certain capital outlay improvements, and to pay for FY 2004 retroactive cost of living adjustments for city employees).

The Sholan Farm land purchase appropriation represents the final amounts due to complete payments on the purchase of the property. The original purchase price for the 160 acre parcel which abuts the Fallbrook Reservoir (on which a 160 unit subdivision was proposed) was \$4,875,000.

Executive Budget

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City of Leominster

Local Receipts

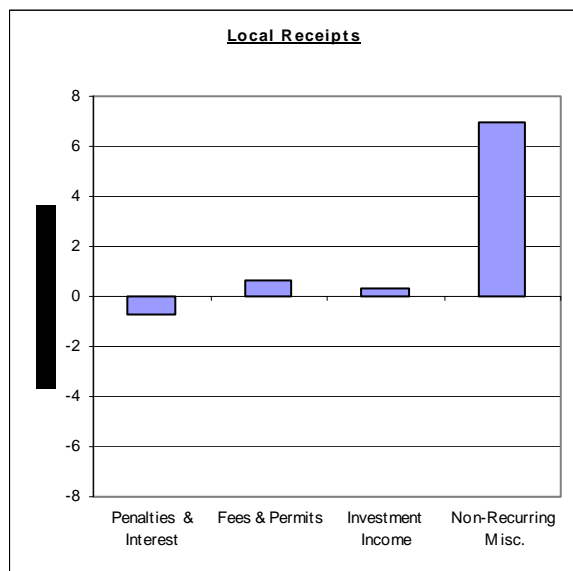
With the continued economic slowdown has come a realization that local sources will not see growth. Certain taxes may not grow as fast or may even decline from previous years due to delays in making purchases (e.g. Motor vehicle excise) or even cancellation of travel plans (hotel taxes) by consumers and professionals alike.

Investment Income is expected to increase slightly from FY 2004 due to small increases to the record low interest rates being paid on deposits.

The City of Leominster did not use one time revenues in FY 2005 to help lower the tax rate, by funding recurring operating budget expenditure levels, as other communities have resorted to during this especially difficult economic year.

The City did budget non-recurring receipts for non-recurring expenses as explained in the State Aid - General Government section of this document.

Budget Chart 16



Expenditures

The budget chart on the following page illustrates the expenditure amounts by functional area in the City. The Miscellaneous category includes Group Health, Pension, Other Insurances, and Other expenditure categories.

Budget adjustments in the functional areas include the following:

General Government:

- Massachusetts Municipal Association funding has been restored.
- Level funding of expense categories
- Funding of step increases for those who have reached the maximum step in their pay category
- Funding for internet service costs, server semi annual maintenance, daily anti-virus updates, 24/7 computer system monitoring and Web Site hosting.
- Funding method changed to bank fee's for service arrangement from a compensating balance agreement
- Deferred Compensation Due Diligence program implementation.

Public Safety:

- Fire expense appropriation increases by estimate of fee changes
- Level funding of other expense categories
- 1 Patrolmen position on military leave of absence (75% funded).

Executive Budget

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City of Leominster

Budget Table 4

Functional Area	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999	FY 1998
General Government	2,137,752.32	2,024,898	2,175,738	2,068,243	1,930,584	1,892,981	2,493,920	1,744,145
Public Safety	11,267,559	10,921,058	11,172,585	10,872,913	10,139,399	9,666,025	8,834,092	8,740,272
Education	41,280,682	39,951,363	41,760,405	41,290,395	40,975,008	39,824,542	35,293,109	31,843,819
Public Works	4,315,061	4,157,508	4,366,108	3,978,045	3,751,522	3,716,045	3,150,924	3,039,374
Human Services	516,573	515,472	499,932	485,383	449,548	453,704	427,447	420,756
Culture and Recreation	1,238,512	1,171,226	1,151,200	1,139,323	1,055,934	993,293	913,341	232,342
Debt Service	3,981,020	4,059,533	3,052,102	3,109,010	3,140,540	3,127,125	3,202,605	3,244,470
Miscellaneous	14,111,541	12,403,942	11,663,387	10,754,554	9,645,131	8,560,657	8,859,136	9,432,751
Other	4,207,454	3,457,192	1,603,522	1,719,973	1,500,170	1,499,665	1,140,861	1,354,683
Totals	83,056,154	78,662,192	74,444,979	75,417,439	72,587,745	69,779,036	64,584,147	60,202,704

Education:

- Appropriation increase of \$1,329,319 (based upon Senate Budget).
- Preliminary school spending during FY2005 can be summarized as follows:

Net School Spending Requirement*	\$47,794,098.00
School Transportation	\$2,127,875.00
School Debt Service	<u>\$3,617,707.50</u>
Total	\$53,539,680.50**

**This amount does not include interest costs related to the \$17,090,000.00 temporary loans outstanding related to the new middle school and the Southeast School renovation project. This will hopefully be paid for by the use of "Free Cash".

* Preliminary FY 2005 NSS requirement based upon Senate Budget . (\$1,329,319.00,0 Chapter 70 increase)

Executive Budget

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City of Leominster

Public Works:

- Level funding for expenses.
- Refuse & Garbage Disposal funding increased by \$200,000.00

Human Services :

- Level funding for expenses

Culture and Recreation:

- Library expense funding increased by 5.67 %
- Recreation Department swimming pool program added
- Level funding for other expenses

Debt Service:

- Temporary loan interest expenses to be paid for by the use of "Free Cash".

Miscellaneous:

- Required increase in pension system contribution of \$128,378.00 (actuarial study not yet complete).
- Group Health Insurance increase of \$1,180,800.00 (15%)

Actuarial valuations are being conducted for both the pension system and for Other Post Employment Benefits (OPEB). The actuarial studies will determine the present value amount of assets needed to pay for the benefits promised to current and future retirees. Studies will also allow strategies to be formulated to put the City in the position to be able to begin to make payments toward significant OPEB costs in the future.

Reserves

Fiscal Reserves

The City of Leominster has established reserve policies which will assist the City during all phases of the business cycle. Adherence and compliance to the existing targets and even updated targets requires significant discipline and political will to maintain the course during difficult economic times. The long term benefits of successful execution of the adopted reserve policies far outweigh any temporary cost of foregoing adherence to the well thought-out and reasoned fiscal reserve policies.

Free Cash

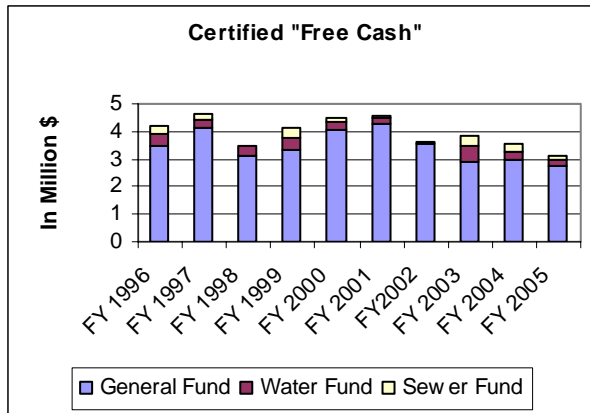
The State Certifies a portion of the City's surplus revenues as legally available for spending. The Fiscal Year 2005 certified "Free Cash" amount was \$3,091,199. The Water Department portion was \$281,580. The Waste Water Department portion was \$91,248 (both departments surplus is closed to the General Fund per Ch. 44 sect. 53e requirements). The remaining \$2,718,371 represents 2.90% of the total amount to be raised during FY 2005 of \$93,852,946. The City strives to have a minimum of 5% of the total amount to be raised in certified "Free Cash" because of the reliance on this account for capital outlays, snow and ice expenses, public safety overtime, other variances from normal service levels, and the unexpected occurrences or emergencies. The State Aid reductions have placed pressures on the budget which has negatively affected the ability to meet our stated 5% goal in the past two fiscal years.

Executive Budget

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City of Leominster

Budget Chart 17

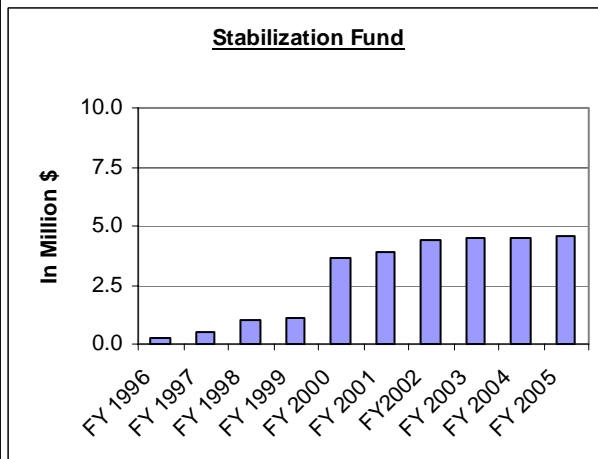


Stabilization Fund

The City has wisely funded a Stabilization Fund to protect against revenue deficits. The 6/30/04 balance of \$4,554,772.13 represents 4.85 % of the Total Amount To Be Raised during Fiscal Year 2005 (\$93,852,946).

An appropriation of approximately \$100,000 will need to be made to the Stabilization Fund during FY 2005 to maintain the 5% of the "total amount to be raised" fund balance goal.

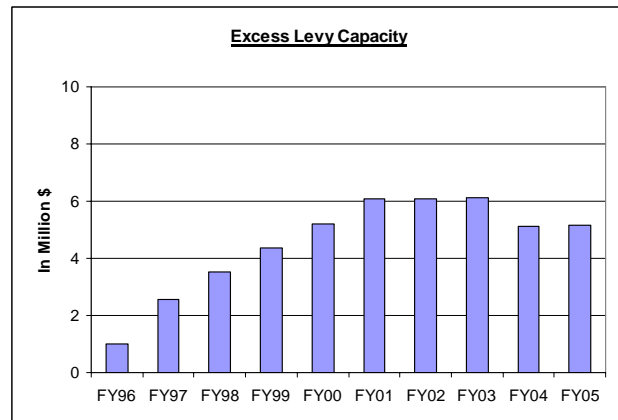
Budget Chart 18



Excess Levy Capacity

Excess Levy Capacity is the amount of a tax increase the City could raise on the tax levy in addition to the current year's Proposition 2 1/2 % increase before the need for an override. The City Council recently voted a Library expansion project that will further reduce the amount of Excess Levy Capacity available in the future. The cumulative excess levy capacity not levied on taxpayers during the past 10 years totaled \$45,283,174.

Budget Chart 19



Other Reserve Funds

Emergency Reserve Account

This account is part of the General Fund Budget. The Fiscal Year 2005 Budget included \$100,000 for this purpose. This account is used for unexpected costs that arise during the fiscal year. The City does also use this account for unforeseen needs prior to certification of "Free Cash".

Executive Budget

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City of Leominster

Highway State Aid Reserved Account

The State Chapter 90 Program funds expenditures related to approved highway projects. Appropriation requests are made by the Highway Department once the projects are approved and the money is available to be drawn on the State Letter of Credit Authorization.

Gallagher Building Revolving Fund

The Gallagher Building collects rents which is deposited into the account for operating and maintenance of the building. A certain amount is also provided to help defray the principle and interest payments related to the loan taken out by the City to pay for capital improvements to the Gallagher Building.

Parking Meter Receipts

The City collects garage and meter fees for deposit into this fund. The proceeds are used for the expenses of the parking areas, the enforcement of parking regulations and for the collection process.

Wetland Fees Reserved

The Conservation Commission related fees collected are required to be placed into this fund. This fund has helped to pay for an administrator and administrative expenses related to the Conservation Commission.

Cemetery Perpetual Care Income

The purchase of a cemetery lot includes a fee for perpetual care of the lot. This fee is deposited into the Perpetual Care Trust Fund. Proceeds of this account are available to be used for cemetery operating purposes.

Cemetery Sale of Lots Income

The purchase price of a cemetery lot is deposited into the Cemetery Sale of Lots Trust Fund Principle Account. The investment income generated is available to be used for capital outlay purchases for cemetery related purposes.

General Fund Capital Investment Fund

The City of Leominster had special legislation passed to establish this fund for capital outlay purposes that would accumulate appropriations for multiple fiscal years in order to purchase a capital item. For instance, if a Fire Department engine was projected to cost \$400,000, the City could place \$100,000 per year into this fund for four years. The City has not recently utilized this fund but it is a good vehicle for capital outlay planning purposes.

The special legislation also allowed for the establishment of the same type of funds for both the Water and Waste Water Departments.

Weights & Measures

The Weights & Measures Department has recently become authorized to levy fines for violations. The payments collected from these fines are required to be deposited into this fund. The proceeds are required to be utilized for Weights & Measures Department purposes.

Sale of Real Estate Fund

The proceeds of City owned property are required to be deposited into this fund. The use of these funds are restricted by statute.

Library State Aid Reserved

The proceeds are legally restricted for library related expenses. The City qualifies for this aid by meeting expenditure and operating hours requirements established by the State Board of Library Commissioners.

Executive Budget

Summary Continued

City of Leominster

Budget Table 5

Account	FY04 Beginning Balance	FY04 Inflows	FY04 Outflows	FY04 Ending Balance	FY05 Beginning Balance
Emergency Reserve Account	100,000	—	(98,288)	1,712	100,000
Chapter 90 Account	49,164	969,139	(1,046,500)	(28,197)	(28,197)
Gallagher Building Revolving	187,691	159,520	101,000	246,211	246,211
Parking Meter Receipts	20,181	35,375	36,000	19,556	19,556
Wetland Fees Reserved	30,409	12,763	(25,000)	18,172	18,172
Cemetery Perpetual Care	1,197,339	70,541	(16,400)	1,251,480	1,251,480
Cemetery Sale of Lots	42,310	18,544	—	60,854	60,854
General Fund Capital	1,875	—	(1,500)	375	375
Weights and Measures Fund	550	—	—	550	550
Sale of Real Estate Fund	421,327	—	405,200	16,127	16,127
Library State Aid	13,013	51,065	54,650	9,428	9,428